Master's Thesis of Business Administration

Political Connection, Related Party Transactions, and Firm Performance

- Evidence from Indonesia-

정치적 연관성과 특수관계자 거래가 기업 성과에 미치는 영향
: 인도네시아 기업을 중심으로

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이 논문을 경영학석사 학위논문으로 제출함

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Abstract

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This paper investigates how political connections in concert with related party transactions (RPTs) determine firm performance in Indonesia. Political connection provides easier access to resources and strategic advantages. Using the data of Indonesian firms where the political relation played a significant role in the growth of large corporations, I find that political connection is positively associated with the firm's accounting performance. I further suggest that RPTs are important channel through which political connection contributes to performance. I find that the positive association between political connection and accounting performance is more pronounced with greater RPTs, which implies that politically connected firms manage their RPTs in more efficient way. This paper extends our understanding the role of political connection and RPTs in shaping the firm performance.

Keywords: *Political connection, related party transactions, firm performance, Indonesia*

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Section 1. Introduction

Political connection provides better access to valuable resources and strategic advantages, which can lead to better firm performance (Li et al. 2008; Wu et al. 2012). Prior researches find that political connection can be beneficial for the firm, in terms of better credit access (Claessens et al., 2008; Dinç, 2005, Khwaja & Mian, 2005; and Leuz & Oberholzergee, 2006), possibility to win a bidding from government (Goldman et al., 2009), and lower tax rates (Faccio, 2006). Since political connection plays a significant role in firm growth and corporate strategies in emerging economies (Armanios et al. 2016; Zhu and Chung 2014), it worth investigating whether and how political connection influences the firm performance in emerging markets.

In the current study, I examine the relation between political connection and firm performance and highlights the moderating role of related party transactions (RPTs). Politically connected firms in Indonesia are engage in RPTs to greater extent than non-politically connected firms (Habib et al., 2017). While RPTs may incur agency conflicts between controlling shareholders and minority shareholders, RPTs can render a great strategic advantage to the firms that increase capital allocation efficiency (Wang et al., 2017). I expect that politically connected firms are more likely to manage their RPTs in more efficient ways, using their exclusive resources and favorable treatment from the government (e.g., superior human capital, low taxes, subsidies, etc.) (Hillman 2005).

Hence, I conjecture that the positive association between political connection and firm performance, if any, would be more pronounced with RPTs.

Indonesia provides an ideal setting to this research as it offers interesting institutional features. Intensive political connection, frequent related party transactions and potential agency conflicts between shareholders make it worth to examine their interactive influences on firm performance. First, Indonesia has a unique political environment that began from Suharto regime which lasted for 32 years. Starting from that regime, political connections in some ways affect the firm value in Indonesia. Leuz and Oberholzergee (2006) find that the firm performance of politically connected firms depends on their connections to the regime. For example, the Salim Group, Indonesia's biggest conglomerate whose owner is a closed ally of Suharto (Brown, 2006), obtained the exclusive right to do their business in the western of Indonesia, which represented 80% of the domestic flour market. From only three companies in 1957, Salim Group grew to 427 companies in the early 1990s (IDEAS, 2020). Second, Indonesia is a country in which the majority of companies have concentrated ownership where there exist controlling shareholders (Claessens et al., 2000). Aforementioned example, Salim Group, has the majority of their ownership held by Salim family, resulting in controlling shareholders have substantial decision rights above and beyond the amount they invested in the affiliated firms. Lastly, Indonesian firms commonly engage in RPTs as noted by Utama and Utama (2013). While many public companies in Indonesia engage in RPTs with the purpose of enhancing operational efficiency (e.g., decreasing costs of debts)

according to their study, it still remains ambiguous whether RPTs increase the firm performance after all.

Following Habib et al. (2017a), I categorize a firm-year observation as politically connected (PCON) if at least one large shareholder (controlling at least 10% of the votes directly or indirectly), a board member, or a commissioner is: (a) a current or former Member of Parliament, (b) a Minister or head of local government, or (c) closely related to a politician or party. I use abnormal RP net credit (net credit is the difference between RP lending and RP borrowing) as an instrument for related party transactions.

Using a panel data of 2,058 firm-year observations in Indonesia from 2007 to 2018, I find that politically connected firms in Indonesia perform better than non-politically connected firms. This finding supports the notion that political connection provides the firms with easier access to resources and thus contribute to firm performance. In addition, the positive association is more pronounced for firms with political connection and conduct RPTs (Hillman 2005; Pfeffer 1972). Positive interaction effect between political connection and RPTs on firm performance indicates that politically connected firms may perform better due to their greater reliance on RPTs, which reduces the financing costs and increases the operational efficiency.

This paper extends the literature on the determinants of firm performance in Indonesia by documenting that political connection is positively associated with the performance. This study further contributes to the firm performance literature by documenting the important role played by firm-level RPTs. My findings provide

supporting evidence for RPTs by showing that RPTs can improve the firm performance jointly with easier access to resources through political connection. However, this study also has limitations in that that it only documents association between political connection and firm performance, rather than the causality.

The remainder of the paper proceeds as follows. Section 2 reviews the institutional background of this study. Section 3 and section 4 describe hypothesis development and the research methodology, respectively. Section 5 explains main test results and section 6 concludes the paper.

Section 2. Institutional Background

2.1 Political Environment in Indonesia

Indonesia has been facing interesting political environment since Suharto regime (1966-1998), which is called the New Order era. During Suharto regime, huge exploitation of country's natural resources existed, and Indonesia began to be dominated by economic oligarchies that emerged from the close relationship with the ruling regime. One of them is Salim Group, Indonesia's biggest conglomerate whose owner is a close ally of Suharto (Brown, 2006). In 1998, the era ended and changed to the reformation era, which has changed many aspects, including social, economic, and politic. However, the economic oligarchies from Suharto regime were still there even when the regime and the system have changed. Leuz and Oberholzergee (2006) find that the firm performance on politically connected firms depends on their connections to the regime. For example, Salim group obtained the exclusive right to do their business in the western of Indonesia, which represented 80% of the domestic flour market. From only three companies in 1957, Salim Group grew to 427 companies in the early 1990s (IDEAS, 2020). Fukuoka (2013) and Mietzner (2006) document that after the reformation era started, the businessmen entered politics and had taken over the power of previously held by bureaucratic elites.

In the year 2004, Indonesia held the very first direct presidential election for electing president and vice president. Before 2004, president and vice president were elected by People's Consultative Assembly (MPR), a legislative body of Indonesia. The

pair Susilo Bambang Yudhoyono and Megawati Soekarnoputri won the first election. During their regime, many entrepreneurs turned into politicians in the parliament (Habib et al., 2017a). The parliament in this era has significant power to appoint top bureaucrats, chiefs of army and police, determine the budget (Habib et al., 2017a), and assist the business firms in winning the contracts from the government (Fukuoka, 2013). The power leads to the mutual relationship between political elites and business firms by appointing Members of Parliament to the boards of corporations. Politicians will rely on the business firms to get the donation for their parties, while business firms expect political parties to grant them with government contracts or favorable policy treatments.

2.2 Indonesian Market Characteristics

One characteristic of companies in Indonesia is that they have concentrated ownership structure. As Claessens et al. (1999) states in their paper, around 67% of listed firms in Indonesia are family controlled. The concentrated ownership could arise agency problems since majority shareholder owns a large portion of company's outstanding shares and has controlling interest over the company. Further, in the concentrated ownership structure, the controlling shareholder can have a higher control right than cash-flow right. Claessens (2000) document that in Indonesia higher control right rather than cash-flow right results in expropriation of minority or non-controlling shareholders by controlling shareholders. The conflict of interests between controlling and non-controlling shareholders are inevitable.

Another characteristic of Indonesian companies is they have two-tier board system, where the directors are divided into two parts, the board of directors serves as company manager and the board of commissioners that supervises the board of directors. Board of directors is the central role and has a very strategic position in the company. Because of its strategic position, company or shareholders will carefully select the person for this position. The Asian Development Bank (2000) finds that around 85% of controlling shareholders assign their family members to the board of directors and management team. Further, in Indonesia, board members are selected for their close affiliations, generally family ties, with majority shareholders.

On the other side, the regulatory body, Bapepam-LK, issues a regulation to require listed companies in Indonesia to select independent commissioners. According to Bapepam IX.I.5 independent commissioners are commissioners from outside company, who do not own shares at the company, have no affiliation with the company, and no direct or indirect business relationship related to the business activities of the company. Company at least has one independent commissioner. Independent commissioners' roles are to monitor company management and give objective advices to the directors as they are independent. Moreover, the role of the independent commissioner is not only related to the monitoring and controlling function, Agrawal & Knoeber (2001) argue that it can also determine the company's strategy and corporate decision making.

2.3 RPT Regulations in Indonesia

Related party transactions (RPTs) according to Indonesian Financial Accounting Standards (Pernyataan Standar Akuntasi Keuangan or PSAK) No. 7 follows the definition stated by International Accounting Standards (IAS) No. 24 that define a related party transaction by a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged. Related parties can be described as follows:

- The entity and the reporting entity are members of the same group
- Individuals (or close family members of that individuals) who have, either directly or indirectly, voting rights in the reporting entity that has a significant influence and control
- Key employees or people who have the authority and responsibility in planning, leading and controlling firm's activities
- An entity that is a parent, subsidiary, associate, or joint venture of the reporting entity
- An entity in which substantially owned by a person who is described as related party as mentioned above

The regulatory body in Indonesia, Bapepam-LK, releases several regulations to protect the interest of minority shareholders, to mitigate expropriation and negative impact of RPT. Starting in year 2000, listed companies are required to disclose RPT information to the financial statements (Bapepam Rule VIII.G.7). Information to be disclosed includes assets, liabilities, sales, and purchases that involve RPT, pricing policies and transaction requirements, and reasons and assumptions for the doubtful

account to RPT receivables (Utama, et al., 2010). In addition, if the transaction amount of RPT account is more than one billion Rupiahs (approximately US $ 110,000), company should disclose the amounts or balances separately and mention the name and relation to the related party.

As mentioned above, Indonesia is a country in which the majority of companies have concentrated ownership where there exist controlling shareholders. Controlling shareholders in concentrated ownership firms have control over cash flow rights, which means they can control the firms beyond the funds invested in the firms. In addition, most of the public companies in Indonesia engage in RPTs, while RPTs have potential beneficial effects on firm performance such as lower costs of debts (Utama and Utama, 2014).

Section 3. Hypothesis Development

3.1 Political Connection and Firm Performance

Pfeffer and Salancik (1978) suggest that firms depend on external organizations, and their dependency would influence the firm risk and uncertainty, which in turn affects the performance. According to Resource Dependence Theory, the firms that build a valuable social capital and external links can reduce uncertainty (Pfeffer, 1972) and gain information and capital resources at a lower cost (Hillman, 2005), which leads to improving firm performance. Hillman (2005) further suggests that the primary source of external dependency for firms is government. Government has authorities to allocate limited resources to certain firms and political connection with top government officials enables firms to access to such resources (Hilman, 2005). Therefore, this research focuses on firms that have a connection with the government as defined by Faccio (2006), a firm having a direct relationship with government officials.

Prior researches document a positive relationship between political connections and corporate value in both strong and weak legal systems countries (Faccio, 2006; Fisman, 2001; Goldman et al., 2009). Niessen and Ruenzi (2010) suggest several reasons that explain politically connected firms perform better than non-politically connected firms. First, politicians are more likely to choose firms with the best performance for the sake of their reputation. Secondly, politicians have outsider's perspective that provides an independent view of the firm to improve their performance. Lastly, political connections

can provide competitive advantages for firms such as easier access for getting loans, lower tax rates, or more comfortable to handle the regulatory requirements.

Another line of prior researches documents that politically connected firms have competitive advantages compared to the non-politically connected firms. Politically connected firms have better access to creditor (Claessens et al., 2008; Dinç, 2005, Khwaja & Mian, 2005; and Leuz & Oberholzergee, 2006), are more likely to get business contracts from the government (Goldman et al., 2009), and have less tax to be paid (Adhikari et al., 2006; Faccio, 2006).

Given the uniqueness of Indonesia's political environment, the relationship between politically connected firms in Indonesia after Suharto regime and firm performance is an important empirical question. Building upon Resource Dependency Theory's logic that building political connections will benefit the firm, this study hypothesizes that politically connected firms perform better than non-politically connected firms in Indonesia. The following hypothesis is developed:

H1. *There is a positive association between political connection and firm performance.*

3.2 Political Connection, Related Party Transaction, and Firm Performance

This paper predicts positive relation between political connection and firm performance in H1 (previous subsection). In the current section, I provide more concrete view how political connection relates to better performance, focusing on the critical role of RPTs. Habib et al. (2017) document that politically connected firms in Indonesia are

more likely to engage in RPTs than non-politically connected firms. They add that the politically connected firms conduct RPTs, especially RP loans, to lending and borrow capital resources within their related parties (Habib et al., 2017a). Previous research also shows that firms usually use related party loans (RP loan) out of among various kinds of RPTs for to make use of the internal capital market (Berkman et al., 2009; Jiang et al., 2010). Tunneling may create agency problems (Johnson, La Porta, Lopez-de-Silanes, and Shleifer 2000), but there are many evidences that RPTs in Indonesian firms are usually conducted with economic reasons to improve efficiency or decrease the financing costs (Wang et al., 2017; Wong et al., 2015; Habib et al. 2017).

According to Indonesian Financial Accounting Standard (PSAK 7), related party transactions (RPTs) are the exchange of wealth, service, or liabilities between the firm and its related parties. RPTs can be beneficial or detrimental to the firm. Wang et al. (2017) explain that there are positive and negative aspects of RPTs. Employing RPTs can decrease transaction costs and increase capital allocation efficiency (Wang et al., 2017). Wong et al. (2015) similarly suggest that related party sales increase the firm profitability and value as the result of the increased efficiency and decreased transaction costs while Habib et al. (2017b) find that related party sales lead to lower audit fees and misstatements.

Politically connected are likely to utilize their exclusive resources from the connection to efficiently manage the RPTs. For instance, prior studies suggest that political stability reduces the divestment costs and helps firms invest optimally (Jens

2017). Political connection draws the favorable treatment from the government including the tax benefits and government subsidies (Wu et al. 2012; Wang and Lin 2017). Political connection is also related to superior human capital (Niessen and Ruenzi 2010). Hence, I conjecture that politically connected firms are better positioned to choose the optimal level of RPTs without political instability and potential sanction for the heavy RPTs. This leads to the following hypothesis that the benefits of political connection are pronounced when the firms engage in more RPTs.

H2. *Positive association between political connection and firm performance is more pronounced with RPTs.*

There is considerable tension with regard to this hypothesis. RPTs can raise agency conflicts between controlling shareholders and minority shareholders. Prior research shows that RPTs are used to expropriate minority shareholders or tunneling, where the minority shareholders experience value losses such as cash payments (Cheung et al., 2006). Moreover, RPTs are mostly directed to the firm's largest shareholders, and they provide more lending to their related parties than they borrow (Jian and Wong, 2010).

Section 4. Methodology Research

4.1 Sample Selection

Data on the amounts of RPTs and corporate governance (Board of directors, board of commissioners, independent commissioners, audit committee, the names of audit firms, the names and percentages of share ownership) are hand-collected from audited financial reports downloaded from the website of the Indonesia Stock Exchange (http://www.idx.co.id/index-En.html) or the website of each firms. Financial statement data are collected from Thomson Reuters Datastream.

Following Habib et al. (2017), the criteria of politically connected firms are if at least one large shareholder (controlling at least 10% of the votes directly or indirectly), or board member, or commissioner is: a) a current or former member of Parliament, b) a minister of head of local government, or c) closely related to a politician or party (spouse, sons or daughters, and other immediate family relationship).

The names of members of Parliament were collected from the website of the Indonesia House of Representatives (http://www.dpr.go.id/id/anggota/), while the names of members of cabinet were gathered from the website of the cabinet secretariat of the Republic of Indonesia (http://setkab.go.id/en/profil-kabinet.html). The names of heads of local governments (governors) were collected from (http://www.kemendagri.go.id/staff-directory/gubernur- dan-wakil-gubernur). The names of Members of Parliament,

members of cabinet, and heads of local governments were matched with the names on boards of directors and boards of commissioners, and with the names of shareholders.

4.2 Research Design

To test hypothesis 1, the following regression model is developed:

$$Adj\_ROA_{i,t} = \gamma_0 + \gamma_1 PCON_{i,t} + \gamma_2 OCON_{i,t} + \gamma_3 LEV_{i,t} + \gamma_4 MTB_{i,t} + \gamma_5 SIZE_{i,t} + \gamma_6 AUDIT_{i,t} + \gamma_7 RET_{i,t} + \varepsilon_{i,t}$$

where *Adj_ROA* is industry-adjusted *ROA*, the proxy for firm performance, which is calculated by *ROA* minus average (median) of industry *ROA*. *ROA* is calculated by income before interest, tax, depreciation & amortization divided by total assets. *PCON* is an indicator variable coded 1 if the sample observations have political connections, 0 otherwise. I expect a positive and significant coefficient on *PCON* to suggest that politically connected firms will have better performance than non-politically connected firms.

To test hypothesis 2, the following regression model is developed:

$$Adj\_ROA_{i,t} = \gamma_0 + \gamma_1 PCON_{i,t} + \gamma_2 ABN\_CREDIT_{i,t} + \gamma_3 PCON_{i,t} * ABN\_CREDIT_{i,t} + \gamma_4 OCON_{i,t} + + \gamma_5 LEV_{i,t} + \gamma_6 MTB_{i,t} + \gamma_7 SIZE_{i,t} + \gamma_8 AUDIT_{i,t} + \gamma_9 RE_{i,t} T + \varepsilon$$

Following Habib et al. (2017) I use abnormal RP net credit (*ABN_CREDIT*) as the dependent variable. To calculate this variable, I run the regression of debt ratio (*LEV*), firm's size (*SIZE*), ownership concentration (*OCON*), market to book ratio(*MTB*), and industry adjusted ROA (*Adj_ROA*) on RP net credit ratio (RP lending minus RP borrowing divided by total assets) for each year, controlling for industry and year fixed

effects. The result for the regression is shown in Table 1. The residual of this regression is abnormal RP net credit. The variable of interest is the interactive variable *PCON* and *ABN_CREDIT*. If politically connected firms manage RPTs more efficient than non-politically connected firms, then I expect a positive and significant coefficient *on PCON*ABN_CREDIT*.

(Table 1 here)

I include a set of control variables based on prior literature (Wang et al., 2017; Habib et al., 2017)). Larger firms (*SIZE*), firms with growth opportunities (*MTB*), and less-leveraged (*LEV*) firms are more likely to have better performance. *SIZE* is measured as the natural log of total assets. *MTB* is the market value of equity divided by the book value of equity. *LEV* is calculated by total liabilities divided by total assets.

I also control ownership concentration (*OCON*), measured as percentage of shares owned by the 5 largest shareholders, a dummy variable *AUDIT* coded 1 if the observation is audited by BIG 4 (PwC, EY, KPMG, Deloitte) and 0 otherwise, and firm's stock returns (*RET*). I include the industry and year fixed effect for both models.

Section 5. Main Results

5.1 Descriptive statistics

Table 2 provides descriptive statistics for sample groups' financial performance, RPTs, and other group characteristics. The number of observations for all variables is 2,085 from 2007 to 2018. All continuous variables have been winsorized at the top and bottom 1% of their respective distributions. Overall, the sample groups performed well with an average ROA of 10.9%. The median of the performance variable is similar to its mean, indicating that the distribution is symmetric. Average *PCON* is 25%, suggesting that there exist fair number of Indonesian firms that engage with political connection. On average, abnormal RP net credit (*ABN_CREDIT*) is 0.00 and with ownership concentration (*OCON*) is quite high, average of 51%. Sample firms have high leverage (*LEV*), an average of 0.55 and market to book ratio (*MTB*) is 2. Big 4 audit firms audit about 41% of the firm-year observations.

(Table 2 here)

The correlation matrix in Table 3 shows that firm performance (Adj_ROA) is positively associated with political connection (PCON) and negatively associated with abnormal RP net credit (ABN_CREDIT). These correlations are consistent with prior arguments that politically connected firms will perform better than non-politically connected firms and RPTs have detrimental effect to the firm performance.

(Table 3 here)

5.2 Empirical Results

5.2.1 Main Results

This study estimates the impact of political connections on firm performance to examine the prediction in H1 and analyze the prediction whether RPTs will moderate the association between political connections and firm performance in H2. Table 4 presents the regression results for the association between political connections, moderating variable RPTs, and firm performance.

The regression result in the first column (Model 1) reveals that the coefficient on PCON is positive and significant, suggesting that politically connected firms are associated with higher firm performance. This result is consistent with prior literature and Resource Dependency Theory's logic which argue that building political connections will benefit the firms. Therefore, H1 is supported. In addition, firms which are larger, have lower leverage, higher market to book ratio, and are audited by BIG 4, have better performance in terms of return on assets. However, the coefficient of OCON variable in this sample group is not significant, suggesting that ownership concentration on the firms are not associated with firm performance.

(Table 4 here)

Second column (Model 2) provides the regression results for the association between political connections, RPTs, and firm performance. The variable of primary interest is the sign and significance of the coefficient on the interactive variable PCON*ABN_CREDIT. I expect the sign of coefficient to be positive.

The coefficient on the standalone variable ABN_CREDIT is significantly negative, implying the detrimental effect of RPTs on firm performance. However, the interactive variable is significantly positive, suggesting that politically connected firms with RPTs are more likely to have better performance. These results are consistent with H2 that assumes politically connected firms manage RPTs in more efficient manner than non-politically connected firms. The OCON variable is still insignificant in this model but it has larger magnitude than in model 1, suggesting that there is little evidence that firms with high concentration of ownership may conduct more RPTs which lead to poorer performance.

5.2.2 Propensity Score Matching

To examine the possible endogeneity in the model, I use propensity score matching (PSM) technique, a technique that is proposed by Rosenbaum and Rubin (1983). PSM can be used to mitigate selection problem that could arise from observables by matching the treatment groups, observables that selected into the program, with the similar control groups. I use nearest neighbor (NN) procedure to match treatment, by which in this case is the politically connected firms, and control groups. The NN procedure picks a single control firm according to the closest propensity score (Rosenbaum and Rubin, 1983).

(Table 5 here)

Results are reported Table 5. Panel A documents the propensity matched variables. These variables are determined to be similar to each other but different with

political connection variable. The t-test for all variables are not statistically significant indicating the covariate balance are achieved. Panel B, Table 5 shows the PSM regression results. I find the results are consistent with the main results: (i) politically connected firms have better firm performance, (ii) political connection and firm performance is more pronounced when the firms engage in RPTs. Overall, our PSM analysis provides robust evidence about the association between political connection and firm performance and the mediating role of firm-level RPTs.

Section 6. Conclusion

This study investigates the association between political connections and firm performance. Next, this study also highlights the role of RPTs as an important channel through which political connection leads to firm performance. I find that politically connected firms in Indonesia are more likely to perform better than non-politically connected firms. I also find that the positive association of political connection and firm performance is more pronounced when the firms engage in RPTs. This paper extends the literature on the determinants of firm performance in Indonesia by documenting that political connection is positively associated with the performance. This study further contributes to the firm performance literature by documenting the important role played by firm-level RPTs. My findings provide supporting evidence for RPTs by showing that RPTs can improve the firm performance jointly with easier access to resources (i.e., political connection). The findings from this study might be generalized to other emerging countries, which have similar institutional characteristics with Indonesia, including broad political connections of the firms and frequent related party transactions. However, this study has limitation as it only examines the association rather than causality. The potential causal association in this study could be investigated for future research.

Appendix 1. Variable Definitions

Variable	Definition
ROA	By income before interest, tax, depreciation & amortization divided by total assets
Adj_ROA	*ROA* minus average (median) of industry *ROA*
PCON	Dummy variable coded 1 for politically connected firm and 0 otherwise
RP_CREDIT	RP lending minus RP borrowing divided by total assets
ABN_CREDIT	Residual from regression of *RP_CREDIT* on *SIZE*, *LEV*, *MTB, OCON, ADJ_ROA,* controlling for industry and year fixed effects
OCON	Total percentage of shares owned by the 5 largest shareholders
LEV	Total liabilities divided by total assets
MTB	Market value of equity divided by book value of equity
SIZE	Natural logarithm of total assets
AUDIT	Dummy variable coded 1 if firm is audited by BIG 4 (PwC, EY, KPMG, Deloitte), 0 otherwise
RET	Firm's stock return

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Table 1. Regression Result on *RP_CREDIT*

Dependent variable: *RP_CREDIT*	
OCON	-481.15 (-1.91)
LEV	-1072.03*** (-4.22)
SIZE	270.301*** (4.48)
MTB	-78,706* (-2.14)
ADJ_ROA	2361.76** (2.64)

Note: Variable definitions are in Appendix 1.

* Represent statistical significance at the 10% level (two-tailed test).

** Represent statistical significance at the 5% level (two-tailed test).

*** Represent statistical significance at the 1% level (two-tailed test).

Table 2. Descriptive Statistics

Variable	Mean	Median	Standard Deviation	Q1	Q3
ROA	0.109	0.98	0.13	0.05	0.16
Adj_ROA	0.01	0.00	0.12	-0.04	0.06
PCON	0.25	0.00	0.44	0.00	1.00
ABN_CREDIT	0.00	48.69	4403.48	-368.69	513.33
OCON	0.51	0.62	0.39	0.00	0.85
LEV	0.55	0.51	0.39	0.35	0.66
MTB	2.00	1.0	0.003	0.44	2.00
SIZE	21.67	21.75	1.65	20.58	22.82
AUDIT	0.41	0.00	0.49	0.00	1.00
RET	8.93	1.26	2452.95	0.52	4.33

Note: Variable definitions are in Appendix 1.

Table 3. Correlations

	Adj_ROA	PCON	ABN_ CREDIT	OCON	LEV	MTB	SIZE	AUDIT	RET
Adj_ROA	1.000								
PCON	0.0965	1.000							
ABN_CREDIT	-0.0003	-0.0862	1.000						
OCON	0.0160	0.3187	-0.0487	1.000					
LEV	-0.2367	0.0521	0.0003	-0.0014	1.000				
MTB	0.3518	0.0236	-0.0001	-0.0415	-0.0854	1.000			
SIZE	0.1841	0.2666	0.0015	-0.0735	-0.0556	-0.0494	1.000		
AUDIT	0.1831	-0.0009	0.0008	-0.0914	-0.0465	0.0931	0.2092	1.000	
RET	0.3436	0.0611	-0.0159	-0.0412	-0.0906	0.4230	0.1492	0.2052	1.000

Note: Variable definitions are in Appendix 1.

Table 4. Main Results

Dependent variable: *Adj_ROA*		
Independent variable	**Model 1**	**Model 2**
PCON	0.014**	0.012*
	(2.33)	(2.14)
ABN_CREDIT		-0.0001***
		(-20.82)
*PCON*ABN_CREDIT*		0.0001***
		(20.95)
OCON	-0.002	-0.011
	(-0.26)	(-1.91)
LEV	-0.061***	0.014*
	(-10.15)	(2.22)
SIZE	0.009***	-0.013***
	(5.98)	(-7.05)
AUDIT	0.020***	0.031***
	(4.06)	(6.76)
MTB	10.738***	16.22***
	(11.85)	(18.81)
RET	0.00***	0.00***
	(9.34)	(8.03)

Table 4. Main Results (cont.)

Intercept	Yes	Yes
Year Fixed Effects	Yes	Yes
Industry Fixed Effects	Yes	Yes
Number of Observations	2,058	2,058
Adjusted R^2	26.85%	39.81%

Note: Variable definitions are in Appendix 1.

* Represent statistical significance at the 10% level (two-tailed test).

** Represent statistical significance at the 5% level (two-tailed test).

*** Represent statistical significance at the 1% level (two-tailed test).

Table 5. Propensity Score Matching

Panel A: Propensity matched variables

Variables	Treated	Control	t-test	p-value
OCON	0.69	0.71	-0.50	0.62
LEV	0.55	0.56	-0.50	0.62
AUDIT	0.38	0.35	1.03	0.30
SIZE	22.20	22.17	0.26	0.79
MTB	1.5	1.6	-1.05	0.29
RET	10.02	12.82	-1.04	0.30

Panel B: Regression results

Dependent variable: *Adj_ROA*

Variables	Model 1	Model 2
PCON	0.016**	0.015*
	(2.30)	(2.10)
ABN_CREDIT		-0.0001***
		(-7.87)
*PCON*ABN_CREDIT*		0.0001***
		(7.98)

Panel B: Regression result (cont.)

OCON	0.011 (0.78)	0.005 (0.40)
LEV	-0.080*** (-7.90)	-0.046*** (-4.34)
SIZE	0.010*** (3.96)	0.003 (1.11)
AUDIT	0.015 (1.85)	0.021** (2.59)
MTB	9.27*** (6.26)	13.25*** (8.76)
RET	0.00*** (3.91)	0.00*** (3.49)
Intercept	Yes	Yes
Year Fixed Effects	Yes	Yes
Industry Fixed Effects	Yes	Yes
Number of Observations	2,058	2,058
Adjusted R2	26.85%	39.81%

Note: Variable definitions are in Appendix 1.

* Represent statistical significance at the 10% level (two-tailed test).

** Represent statistical significance at the 5% level (two-tailed test).

*** Represent statistical significance at the 1% level (two-tailed test).

Abstract in Korean

본 연구는 기업의 정치적 연관성과 특수관계자 거래가 인도네시아 기업의 성과에 미치는 영향을 분석한다. 기존의 선행연구에서는 정치적 연관성과 특수관계자 거래 각각이 기업 성과에 긍정적인 영향을 미친다는 결과와 부정적인 영향을 미칠 수 있다는 결과가 모두 제시되었다. 본 연구에서는 인도네시아 기업들의 자료에 기반하여 정치적 연관성과 기업 성과 간의 관계에 대한 실증 결과를 제시함과 더불어, 기존 연구들과 달리 정치적 연관성과 특수관계자 거래가 상호작용하여 기업성과에 미치는 영향을 탐구한다는 데 의의가 있다. 본 연구에서는 정치적 연관성이 기업 성과와 평균적으로 양의 관계를 지닌다는 것을 보여준다. 더불어, 정치적으로 연관된 기업은 특수관계자거래를 증가시킬 때 더욱 기업성과가 향상되는 분석 결과를 보였다. 본 연구의 결과는 정치적으로 연관된 기업이 특수관계자 거래를 더욱 효율적으로 관리하여 기업 성과를 향상시킬 수 있음을 시사한다.

주요어 : 정치적 연관성, 특수관계자 거래, 기업 성과, 인도네시아 기업
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